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Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02

COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 DRC-01 /154 W
---------- 107735
R 101513Z MAY 74
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 9028
INFO AMEMBASSY LONDON
AMEMBASSY BONN
USMISSION EC BRUSSELS

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E.O. 11652: N/A
TAGS: ENRG
SUBJECT: FRENCH COAL OUTLOOK

REF: A) PARIS 1433; B) PARIS 8515; C) STATE 4413

1. FRENCH COAL MONOPOLY (CHARBONNAGES DE FRANCE - CDF) WAS DIRECTED BY GOVERNMENT EARLIER THIS YEAR TO STUDY POSSIBILITIES FOR INCREASED FRENCH COAL PRODUCTION UNDER NEW ENERGY MARKET CONDITIONS. CDF'S TECHNICAL AND ECONOMIC STUDIES, NOW MORE OR LESS COMPLETED, INDICATE THAT ANY SUBSTANTIAL EXPANSION OF COAL PRODUCTION NOT ECONOMICALLY JUSTIFIABLE, ALTHOUGH SOME EXTENSION IN PRODUCTIVE LIFE OF PITS PREVIOUSLY SCHEDULED FOR CLOSING CAN NOW BE FORESEEN.

2. CDF'S ECONOMIC STUDY WAS MADE AGAINST BACKGROUND OF PETROLEUM PRICES ASSUMED TO BE IN RANGE OF $8-9/BBL (CONSTANT DOLLARS) OVER NEXT TEN-YEAR PERIOD. COSTS OF COAL PRODUCTION HAVE UNDER THESE TERMS DROPPED BELOW
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COST OF OIL, THEORETICALLY ALLOWING ELIMINATION OF COAL

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SUBSIDY AVERAGING $13/TON (ALTHOUGH GOF HAS NOT IN FACT ALLOWED COAL PRICES TO RISE COMMENSURATE WITH RECENT OIL PRICE RISES AND SUBSIDIES CONTINUE). CDF MAINTAINS THAT NEW INVESTMENTS REQUIRED TO EXPAND CAPACITY EVEN MARGINALLY WOULD REQUIRE INCREASED SUBSIDIZATION OVER LONGER TERM. ALTHOUGH THERE IS SOME POLITICAL PRESSURE (PARTICULARLY FROM LABOR UNIONS) ON GOF TO DO SO, GOF HAS APPARENTLY DECIDED THAT SMALL INCREMENTS IN DOMESTIC COAL PRODUCTION POSSIBLE FROM FRANCE'S FEEBLE RESOURCE BASE (.800 MILLION TONS PROVEN RESERVES) ARE NOT WORTH THIS EXPENSE OR LONG TERM COMMITMENT IN COMPETITION WITH DEMANDS OF NUCLEAR EXPANSION PROGRAM.

3. FRANCE'S COAL PRODUCTION OF 28 MILLION TONS IN 1973 WAS PREVIOUSLY SCHEDULED TO FALL TO 14 MILLION TONS IN 1980, 5 MILLION IN 1990. UNDER NEW ECONOMIC CONDITIONS, CDF FORESEES THAT CLOSURES OF OLD MINES (PARTICULARLY IN NORTH) CAN BE DELAYED AND PRODUCTION CAN BE EXPECTED TO STAY IN VICINITY 20 MILLION TONS IN 1980, 10 MILLION IN 1990. SOME OF BETTER MINES (I.E. IN LOVRAINE) WILL BE ABLE TO PRODUCE AT ECONOMIC GAIN FOR NEXT TEN YEARS OR SO UNDER THESE NEW CONDITIONS.

4. IN SPITE OF LIMITED PROSPECTS FOR INCREASED DOMESTIC COAL PRODUCTION, GOF HAS ADOPTED NEAR-TERM POLICY ENCOURAGING BURNING OF COAL IN POWER STATIONS (MANY OF WHICH ARE BI-FUEL) IN ORDER TO LESSEN DEPENDENCE ON IMPORTED OIL WHILE AWAITING EXPANSION OF NUCLEAR CAPACITY IN 1980'S. COAL IMPORT MONOPOLY (ASSOCIATION TECHNIQUE DES IMPORTATEURS DE CHARBON - ATIC) HAS BEEN TOLD TO SEARCH FOR NEW COAL PURCHASES, PARTICULARLY FOR STEAM COAL, WHENEVER POSSIBLE. COAL IMPORTS HAVE INCREASED DRAMATICALLY; FROM 16 MILLION TONS IN 1973, THEY ARE NOW RUNNING AT ANNUAL RATE OF 22 MILLION TONS. ATIC SOURCES HOWEVER NOTE DIFFICULTY OF OBTAINING LARGE

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SCALE COMMITMENTS FOR COAL DELIVERIES WITHOUT REQUIRE-
MENTS FOR LARGE CAPITAL INVOLVEMENT IN FINANCING PIT
EXPANSIONS, ETC.

5. US SUPPLIER OF MAJOR IMPORTANCE TO GOF, AND AVAIL-
ABILITY OF US COAL EXPORTS IS MATTER OF GREAT CONCERN
HERE (REF. B). US HAS BEEN TRADITIONALLY AMONG MOST
IMPORTANT NON-EC COAL SUPPLIERS (IN 1973 IMPORTS FROM
FRG WERE 9.4 MILLION TONS, OTHER EC 1.5, POLAND 2, US
1.8, USSR 1.1) BUT IS ALSO SUPPLIER WITH GREATEST
POTENTIAL FOR EXPANSION. FRENCH HAVE ALREADY MOVED
INTO US MARKET IN MAJOR WAY THIS YEAR THROUGH PURCHASE
BY USINOR STEEL COMBINE OF BECKLY COAL MINE IN WEST
VIRGINIA, WHICH SHOULD PRODUCE A MILLION TONS PER YEAR
OF COKING COAL IN 1977-78. ALTHOUGH THEY ARE NOT DI-
VULGING ANY DETAILS OF THEIR NEGOTIATIONS, WE BELIEVE
ATIC IS ALSO NEGOTIATING WITH OTHER US MINEOWNERS FOR
EQUITY POSITION, AS WELL AS FOR COAL SALES. IN VIEW
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OF CONSIDERABLE GOF INTEREST IN US COAL POLICY (PARTI-
CULARLY CONCERNS THAT USG MAY EMBARGO INCREASED EXPORTS),
WOULD APPRECIATE ANY INFORMATION WE ABLE TO PASS ON TO
THEM AS REQUESTED REFTEL B.
IRWIN

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